



GOP TAX CUTS DO NOT HELP MIDDLE-INCOME FAMILIES AND THEY ARE FISCALLY IRRESPONSIBLE

House Republicans have been bringing out a series of tax cut bills in the hope that they can fool the American people into thinking that they learned from the experience in 1999 when their \$792 billion package was overwhelmingly rejected despite a public relations campaign during Congress' August recess. Even with projected budget surpluses that have grown since last year, the Republicans' massive tax breaks that primarily benefit the wealthiest Americans are low on people's priorities.

This year the Republican budget resolution proposed \$150 billion in tax cuts with an allowance for an additional \$25 billion over five years, for a total of \$175 billion. By comparison, the 1999 Republican tax bill spent only \$156 billion over the first five years.

Since the American people repudiated their massive tax bill in August 1999, House Republicans have brought to the House or reported from the Ways and Means Committee tax cut bills that total \$152 billion over five years and \$573 billion over ten years. Including the additional interest costs on these tax cuts brings the total amount of the surplus spent to \$169 billion in the first five years and \$708 billion over ten years.

This, however, is not the end of the parade of tax bills planned by House Republicans. In the last two weeks of July, two more bills could see House votes: (1) a bill including the President's "New Markets" community development proposal coupled with a Republican proposal and (2) a bill repealing the second tier of taxation of Social Security benefits for the most affluent seniors. Although final estimates are not available, it is likely that these bills would cost at least an additional \$50 billion in the first five years and \$127 billion over ten years.

Democrats support tax relief for middle-class families, but many of the Republican tax packages give most of the tax cuts to the wealthy and little to middle- and lower-income families. Democrats have offered alternatives that are fiscally responsible and fit into the overall budget framework that pays down the debt by 2013, provides a universal prescription drug benefit for Medicare, strengthens the Medicare Trust Fund and allocates enough money for appropriated programs to keep up with inflation. Further, the Democratic alternatives have provided more tax relief to the people who need it most at a lower cost than the Republican bills.

The Republican tax bills give the lion's share of tax relief to the affluent, according to an analysis of the bills by the nonpartisan group Citizens for Tax Justice. This study found that the top 5 percent of families - those with incomes over \$130,000 - would get 57.8 percent of all of the tax cuts proposed so far by Congressional Republicans, while families in the lower 60 percent of the income scale would get only 8.9 percent of the tax cuts.



GOP Tax Cuts Do Not Help — continued

In terms of the actual tax cuts that a family would see at the end of a year, that translates into only \$131 per year for a family in the middle of the income distribution with an income of \$31,100. However, at the highest rung of the economic ladder, a family in the top 5 percent with an income of \$183,000 would benefit from a tax cut of \$1,944 each year. And, of course, those few fortunate enough to be at the very pinnacle, in the top 1 percent, with incomes over \$319,000 who would also get the most benefit from the repeal of the estate and gift tax get a tax cut of \$23,119.

Here is a rundown of the major Republican tax bills that have passed the House or been reported from the Ways and Means Committee to date:

Marriage Penalty Relief (H.R. 4810 as amended by the Senate) - This bill spends \$55 billion in the first five years and \$248 billion over ten years. Despite its appealing name, more than half of the tax cuts would benefit couples who not only do not pay a "marriage penalty", but actually get "marriage bonuses". In addition, the Republican bill actually allows many couples to be denied tax relief because of the interaction between the Alternative Minimum Tax with the increase in the standard deduction in the bill. The analysis of the bill by Citizens for Tax Justice found that about half of the total tax cuts would benefit the top 10 percent of couples who have incomes over \$92,500 and that the average tax cut for families with incomes of \$50,000 would be about \$110 per year.

Estate Tax Repeal (H.R. 8) - This bill phases out the estate tax over the next ten years to hide the true cost of repeal. By definition, it benefits only those wealthy enough to be subject to the estate tax - fewer than 2 percent of all Americans pay any federal estate tax at all. The cost in the first five years is only \$28 billion, but the ten year cost is \$105 billion, and the revenue lost in the second ten years could be over \$500 billion. Democrats in both the House and Senate proposed reforms of the estate tax that were less costly and provided more immediate relief for family-owned farms and small businesses, but Congressional Republicans were so anxious for a campaign issue that they refused any offers of bipartisanship and insisted in sending this flawed and irresponsible bill to the President for a veto. They prevented true estate tax reform and relief from being enacted.

Private pensions and IRA tax breaks (H.R. 1102 and H.R. 4843) - This bill makes numerous changes in the limits on tax-exempt contributions to private pension plans; it also increases the annual contribution to both traditional and Roth IRAs from \$2,000 per year to \$5,000 per year. The total cost of the tax cuts is \$17 billion in the first five years and \$54 billion over ten years. While many of the changes affecting private pension plans are controversial, the greatest failing of the bill is that it does little to encourage retirement saving by lower- and moderate-income workers. These are the people who are not currently saving enough, mainly because they have to use virtually all of their income on everyday living expenses. Democrats offered the President's proposed Retirement Saving Accounts that would have given a refundable tax credit as the Federal Government's contribution to a qualified retirement account, but House Republicans rejected it.



GOP Tax Cuts Do Not Help — continued

Repeal of 1993 Second Tier of Taxation of Social Security Benefits (H.R. ????) – This bill will be marked up in the Ways and Means Committee and brought to the full House for a vote by the end of July. While it is estimated to cost \$44 billion over five years and \$110 billion over ten years, the most important fact is that **the revenue lost will all come out of the Medicare Trust Fund**. Even if the Republicans attempt make up that loss by taking money out of the projected and uncertain general fund surpluses, it will just be maintaining what is already in current law. In fact, it will come at the expense of using the money to provide a universal prescription medicine benefit within Medicare and strengthening the Trust Fund to keep it solvent through at least 2030. Further, it will not benefit the average senior citizen who depends on Social Security for most of his or her income. Like the rest of the Republican tax cuts, the benefits will go only to about 18 percent of the most affluent seniors. For example, a couple with total income of \$50,000 would get a tax cut of only \$128 dollars, while a couple with an income of \$90,000 would benefit from a tax cut of \$1,470. (Source: Congressional Research Service)

Small Business and Estate Tax cuts (H.R. 3832) – This bill was passed as the companion to the increase in the minimum wage that Democrats forced the Republican leadership to bring to the House. The Republicans loaded \$122 billion of tax cuts into this bill that was originally intended to help small businesses offset the increase in costs associated with an increase in the minimum wage. However, these tax cuts go far beyond the appropriate amount and concentrate the benefits to the wealthy rather than small businesses. The driving force behind the bill was the estate tax break for America's richest families. However, both the estate tax repeal and the private pension plan tax breaks have been split off, leaving about \$26 billion in tax cuts over ten years. According to Citizens for Tax Justice, half of these remaining tax cuts will benefit the top 1 percent.

Health Insurance Access provisions of H.R. 2990 – Like the Democratic minimum wage increase bill, the Patients' Bill of Rights acquired a Republican set of tax cuts targeted to the wealthy during House consideration. In the case of the Patients' Bill of Rights the tax cuts total \$13 billion over five years and \$69 billion over ten years. This package contains an expansion of the availability of the Republicans' Medical Savings Accounts that have not been notably successful, but the largest component is a new deduction for the purchase of health insurance by taxpayers who pay at least 50 percent of the premiums. Over ten years this accounts for \$48 billion of the \$69 billion cost.

While the deduction appears to be attractive on the surface, it will do little to help the vast majority of uninsured people and their families afford health insurance. An analysis by the Center on Budget and Policy Priorities found that 93 percent of those who lack health insurance either pay no income tax (in which case a tax incentive gives them nothing at all) or are in the 15 percent bracket (so the deduction is only worth \$.15 for each \$1.00 they spend, they have to pay the other 85 percent out of pocket). Middle-class families whose employers currently pay more than half of the cost of health insurance could find themselves actually paying more if employers scale back their contributions, according to the Center analysis. Finally, although there are few high-income families without insurance, a significant number buy it themselves. The deduction is worth much more to them than to low-income taxpayers (up to 2 1/2 times as much for those in the top bracket), so that those who need the help least could end up getting the largest share of the tax benefit.

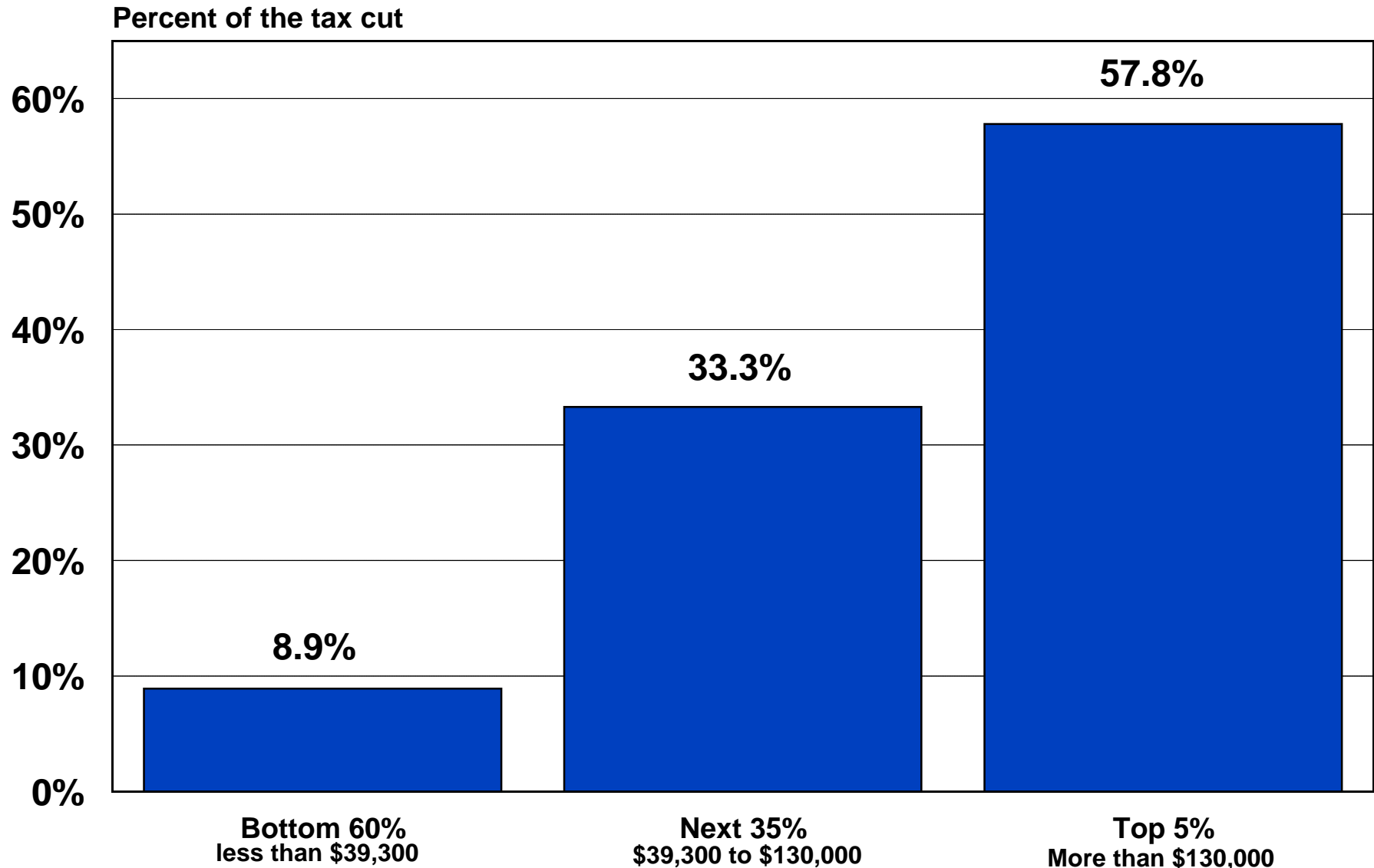
**Republican Tax Cuts Passed by the House
or reported by the Ways and Means Committee***
(billions of dollars)

	Five Year Cost	Ten Year Cost
Marriage Penalty - H.R. 4810 (as passed by Senate and accepted by House)	\$55	\$248
Estate tax repeal - H.R. 8 (sent to President)	\$28	\$105
IRA expansion - H.R. 1102 and H.R. 4843	\$17	\$54
Small Business and estate tax - H.R. 3832	\$45	\$122
Health Insurance access - H.R. 2990 (in conference)	\$13	\$69
Telephone Excise tax repeal - H.R. 3916	\$20	\$51
Other tax bills passed by the House (H.R. 4163 and H.R. 434)	\$5	\$11
Education Savings Accounts - H.R. 7 (reported by Ways and Means)	\$4	\$12
less: duplicate items	\$35	\$99
Total Tax Cuts	\$152	\$573
plus: additional interest cost	\$17	\$135
Total Cost of Tax Bills	\$169	\$708

*Note: does not include the following bills that have not been considered by the Ways and Means Committee:

New Markets/Community renewal (net cost)	\$5	\$17
Repeal 1993 taxation of benefits	\$44	\$110
Potential Additional tax cuts	\$50	\$127
Potential Total Tax cuts (w/ interest)	\$220	\$840

Distribution of the Republican Tax Cuts



Source: *Citizens for Tax Justice*, July 17, 2000; Includes marriage penalty, estate tax repeal, IRA expansion and pension reform and telephone excise tax repeal.

SPECIAL REPORT PAGE FIVE OF FIVE